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Loren D. Hiatt

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October 15, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: In the Matter of Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Dear Mr. Caton:

In accordance with the Commission's rules regarding ex parte presentations, please be advised that on Friday, October 11, 1996, Mark Lemler and myself, representing AT&T, met with Commissioner Laska Schoenfelder, Mr. Charles Bolle, and Mr. Greg Rislov of the South Dakota Public Utilities Commission. The purpose of the meeting was to discuss AT&T's stated position in the above referenced docket.

Written materials, which were used during the presentation, are attached to this letter for inclusion into the official record in this docket. Pursuant to Section 1.1206(a)(1) of the Commission's rules, 47 C.F.R. 1.1206(a)(1), two copies of this letter and the supporting materials are provided for your use.

Should you have any questions concerning the above, please contact me.

Very truly yours,

A handwritten signature in cursive script that reads "Loren".

Attachments

Copy to: The Honorable Laska Schoenfelder (w/o attachment)
Mr. Charles Bolle (w/o attachment)
Mr. Greg Rislov (w/o attachment)

State Government Affairs
NE - SD
10843 Old Mill Road
Suite 104
Omaha, NE 68154
Voice 402-333-5772
Fax 402-333-5775
Internet ID: lhiatt@lgamgw.attmail.com

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Handwritten initials "DJZ" in cursive script.

AT&T PROPOSAL

FOR UNIVERSAL SERVICE and ACCESS REFORM

October 11, 1996

ELEMENTS OF THE NEW UNIVERSAL SERVICE FUND

- Large Local Exchange Companies:
 - ♦ National Universal Service Fund (NUSF)
 - ♦ State Universal Service Fund (SUSF)
- Small Rural Local Exchange Companies:
 - ♦ NUSF
- Low Income/LifeLine Assistance Subsidy:
 - ♦ NUSF
- Schools, Libraries and Rural Healthcare:
 - ♦ NUSF
- Competitively Neutral Collection and Distribution of the Fund

UNIVERSAL SERVICE and ACCESS REFORM ARE INTEGRALLY LINKED

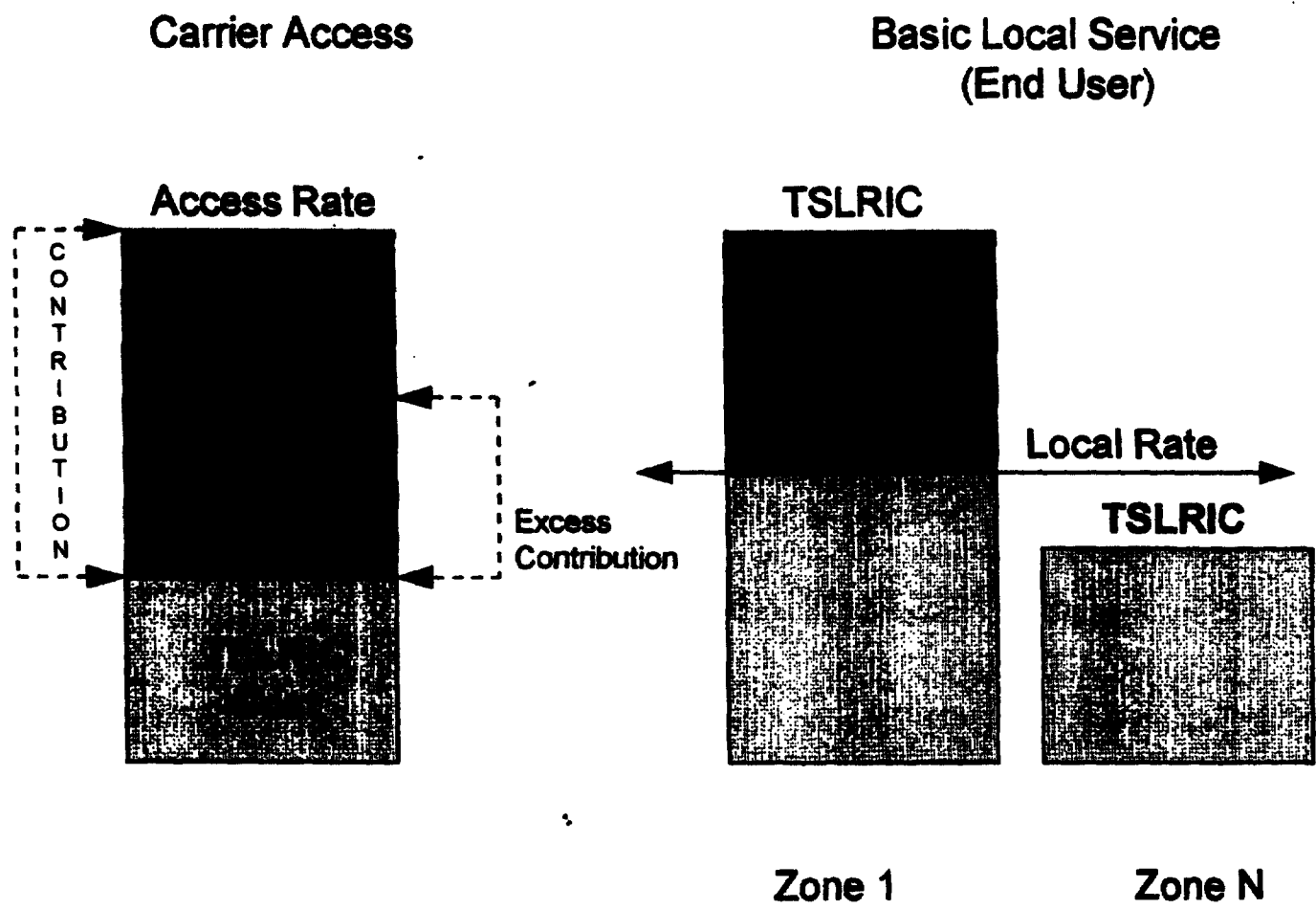
Universal Service Principles (Section 254)

- Universal service subsidies should be based on same TELRIC standard as unbundled network elements
- All telecommunications service providers contribute to universal service support in an equitable and nondiscriminatory manner
- Universal service support should be explicit and sufficient for intended purpose
- Any carrier designated as eligible would be entitled to universal service support
 - Competitive LECs (CLECs) who buy/lease unbundled network elements from Incumbent LECs (ILECs) should be eligible

Access Reform Principles

- Access Charge and Section 251 structures must converge
- Contributions must be removed from all carrier-to-carrier payments
 - Access charge is another form of carrier-to-carrier payments

Paradigm Change



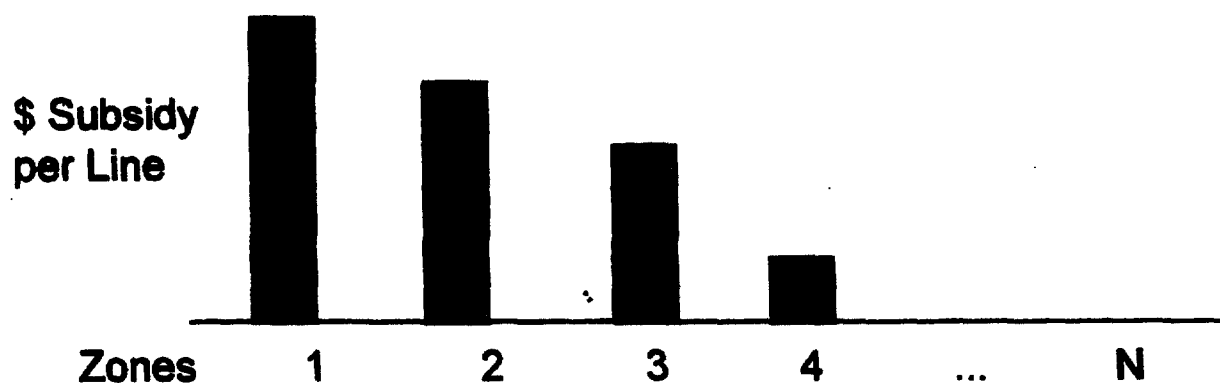
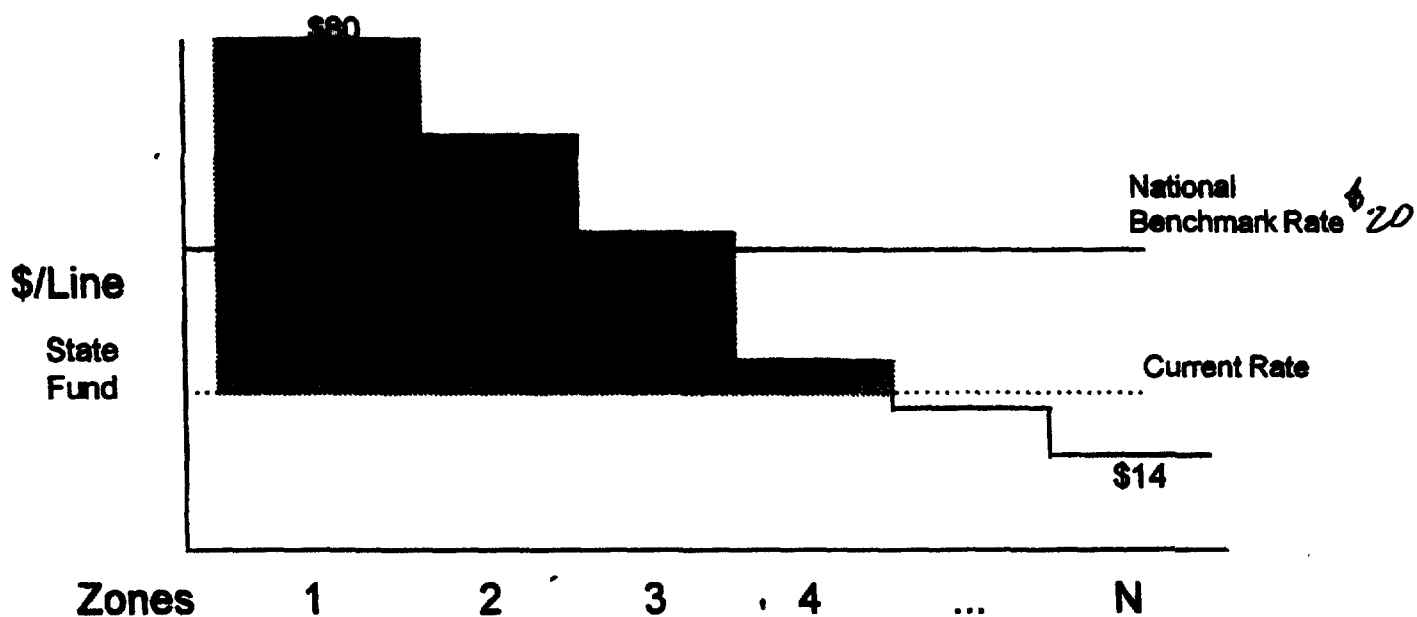
**There is a direct linkage between the
 TELRIC prices of the unbundled network
 elements and the subsidy per line which
 determines the size of the fund.
 (Illustrative)**

UNE*: LOOP	SWITCH	TRANSMISSION	SWITCH
(Zones)	End Office		Tandem
1 to N			
TELRIC \$75....\$9	.2 ¢ - .4 ¢	.25 ¢	.15 ¢

TSLRIC of Local Service	=	zone 1...zone N
Line:		\$75. \$ 9.
Port:]	
Switch Usage:		\$ 3. \$ 3.
Transmission:		
Signaling:		
SUBTOTAL		\$78. \$ 12.
Retail End User Cost		<u>2.</u> <u>2.</u>
TOTAL		<u>\$80.</u> <u>\$14.</u>

* UNE: Unbundled Network Element

Determination of the Universal Service Fund from the TSLRIC of Local Service



USE LARGE LEC ACCESS RATES AS BENCHMARKS FOR SETTING RATES FOR SMALL RURAL CARRIERS

When calculating the new universal service fund for small rural LECs...

- Access rates should be based on the rates of the large company in the state or region
- Any incremental subsidy required to meet the rural carrier's revenue needs should be provided through the new NUSF mechanism
- Subsidy need not be portable in small rural company territory initially

DETERMINING THE SIZE OF THE SUBSIDY **FOR LOW INCOME SUBSCRIBERS**

- To ensure that those truly in need receive assistance, each state should:
 - ♦ Establish a maximum income threshold that initially determines eligibility
 - ♦ Identify one or more assistance programs that subscribers must currently participate
- Calculating Low Income (LifeLine Assistance) Subsidy:
 - ♦ Subsidy is difference between State Commissions determined basic local service rate minus Lifeline Assistance rate

Current Rate _____

LifeLine Assistance _____
Rate

} = NUSF _____

RECOMMENDED COMPETITIVELY NEUTRAL TREATMENT OF ACCESS CONTRIBUTION

*Access contribution** consists of Economic Subsidy and Excess Contribution
Economic subsidy = TSLRIC minus Basic Local Service Rate

Treatment of Economic Subsidy:

- Let prices match TSLRIC costs
- Subsidize only subscribers who are needy relative to the cost of serving them
 - No need to subsidize subscribers living in Aspen
- Competitively neutral treatment of remaining subsidies
 - Portability to any serving carrier
 - Funded through surcharges on retail revenues

* Access revenues above TELRIC

Summary of Results (Hatfield Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access ^ø Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.00 cents+
2 TELRIC Access Rate per min.	.40 cents	.40 cents	.40 cents	.40 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$10.21	\$4.81	\$15.02	
<u>Economic Subsidy</u>				
4 National Fund	\$1.84	\$1.49	\$3.33	\$1.82*
5 State Fund	\$0.95	\$0.84	\$1.79	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$2.91	\$2.35	\$5.26	\$1.82
8 <u>Excess Contribution***</u> (L3-L7)	\$7.30	\$2.46	\$9.76	0

^ø This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

Summary of Results (Proxy Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access \emptyset Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.0 cents+
2 Proxy Access Rate per min.	.63 cents	.63 cents	.63 cents	.63 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$9.17	\$4.16	\$13.33	
<u>Economic Subsidy</u>				
4 National Fund	\$2.20	\$1.93	\$4.13	\$1.70*
5 State Fund	\$1.17	\$0.88	\$2.05	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$3.49	\$2.83	\$6.32	\$1.70
8 <u>Excess Contribution</u> *** (L3-L7)	\$5.68	\$1.33	\$7.01	0

\emptyset This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.